

**U.S. DEPARTMENT OF COMMERCE**  
**MANUFACTURING COUNCIL MEETING**

**February 18, 2005**

Wainwright: Ladies and gentlemen, it's a pleasure to open our third public meeting and call that meeting to order. I would like to take care of a few administrative details before we get into the meeting. Number one, I want to thank the Ford Motor Company and Jim Padilla, in particular, for hosting this meeting in this great town of Dearborn. It's exciting to be here at the birth of manufacturing. And here we are as a manufacturing council. Jim, thank you very much. I would also like to thank our invited guests that are at the table here and also our public and other associations that are in the public here with us today. So, thank you very much. Mr. Secretary, it's a pleasure to have you here as the new Secretary of Commerce. And we're the Council for Manufacturing and we're the voice of manufacturing for you. So, thank you, sir, for being here. As you all know, about a year ago, Secretary Evans created a manufacturing council so the voice of manufacturing could be heard. This was a manufacturing recession that we were in over the last three or four years. Definitely manufacturing needs to be heard and we need a strong manufacturing base in this country. We have a strong base, but we need to continue to fight to keep it strong and that's why this council is here. Over the past year, our most important thing, of course, was to establish an office within the Commerce

Department – an Office of Manufacturing – which we did. We have our Assistant Secretary of Manufacturing, Mr. Frink, over here. And, Al, welcome and thank you for sharing that office.

Frink: Thank you, Mr. Chairman.

Wainwright: We had our two meetings. We had two meetings: one in Michigan and one in Pittsburgh, and now this is our third meeting. During those meetings, we came up with information that was fed to us by manufacturers throughout the United States. Over 55 meetings were held. We were brought together and we put together three subcommittees: a subcommittee on U.S. workforce, a subcommittee on competitiveness, and one on advocacy and international trade. We'll shoot at those three areas to start with. At our September meeting, of course, we sent information to Secretary Evans, by these subcommittees, on healthcare, tort reform, and market access. Now, I would like to go about and introduce the people that we have with us today. On my left here is Karen Wright, the CEO of Arial Corporation, and Karen is our Vice Chair. Karen, thank you. Fred – in fact, would you raise your hand so everybody can see as I call your name – Fred Keller, Chairman of Cascade Engineering and Chairman of the subcommittee on the U.S. workforce. Serving with Fred on that committee, Jim McGregor – Jim – President of Morgan Machine Tool; and Scott Fisk, Chairman and CEO of S & W Plastics. Now, Scott couldn't be with us today. Jim Padilla – Jim – President and Chief Operating Officer of Ford Motor and Chairman of the

subcommittee on competitiveness. Thank you, Jim. Serving with Jim are George Gonzalez – George, raise your hand, please. Thank you – President and Chief Executive Officer of Aerospace Integration Corporation, Wayne Murdy. Wayne? Excuse me, Wayne – Chairman and Chief Executive Officer of Newmount Mining. Charles Pizzi, President and Chief Executive Officer of Taystee Bread and Baking Company, and he could not be here. And Michael Nowak, President and Chief Executive Officer of Coating Excellence International; and Mike could not be with us today, also. Marcos Tambacuras, who is Chairman and President and CEO of Kennametal and Chairman of the subcommittee on international trade, was unable to be with us. But we also have people serving with Chairman Tambacuras. Those are Jim Owens, Chairman of Caterpillar – thank you, Jim; Harding Stole, President and Chief Executive Officer of R.W. Stole Metals, Incorporated. Harding, thank you very much. The President has spoke loudly about manufacturing every time he's had a chance. He knows the importance of manufacturing. And that's why he's put the 35<sup>th</sup> Commerce Secretary of the United States a manufacturing man, who we have with us today. Carlos, thank you very much for being here, Mr. Secretary. It's a great pleasure to introduce a Secretary of Commerce that is a manufacturing man who started at the bottom and worked his way to the top and understands manufacturing. And we look forward to some words from you, sir.

Gutierrez: Thank you. Thank you very much, Don. I appreciate it. And thank you for your services as Chairman of the Council. I also want to acknowledge Congressman McCotter who is with us today and also Governor Engler who has served with distinction three terms in the State of Michigan. And as a former manufacturer – if I can say that – a couple weeks ago – I'd like to thank all of you for your service and the contribution that you are making. This group is having an impact on the competitive landscape. I know that often, when you step back and you say, "What are we doing? Are we making a contribution?" I would just like to start by saying you're not just having meetings and talking about these important issues. You're making an impact. The competitiveness subcommittees report on building momentum for tort reform and action on medical malpractice and asbestos reform is already having – is already generating results. As you know, this morning the President signed a bill – the Lawsuit Abuse Reform which is a very, very important step in the overall tort reform initiative. A lot of the information that was submitted – a lot of the information that was used came out of this council and came out of this subcommittee. So, I want to thank you for that. And I hope you feel as rewarded from this great victory that we've had today as everyone else does in the administration because you had a lot to do with it. The advocacy subcommittee is identifying the barriers to market access for American companies and producing recommendations to level the playing field, and we're looking forward to that. Of course, rising healthcare costs are a burden for every American

company; and the workforce subcommittee is documenting the impact on the manufacturing sector. So, by applying the principles of an effective solution, you're empowering policymakers with the keys to reform. So, I would just encourage you to continue doing the work you're doing because it is having an impact. And you've been very effective in raising awareness on the big issues that are hampering manufacturers. So, once again, you're making a difference and I thank you personally for that. And I know, if the President were here, he would thank you as well.

Competing effectively in the global economy means that, as you well know, manufacturers must operate with a relentless focus on innovation. I don't think we can just sit back and say, "We all have to compete on price, and price is the only factor that will determine success in the future."

Innovation is what has driven this country. Innovation is what has made us the greatest economy in the world. Being different than our competitors, producing higher quality products, being first with new generations of products, that will be the key factor in our success in the future. And I would just encourage you to keep that in mind, that innovation has gotten us this far and innovation is going to take us into the future. Our ability to be smarter and more inventive than our competitors around the world is probably the single biggest competitive advantage we have. And, of course, the administration's role and the administration's goal is to provide the policies and the tools that you have the environment to continue to innovate. I made my first international trip this week, and I

thought I would just share with the Council just some observations from a trip to the European Union and how that environment is changing. I know there are many people in this room who have probably done work in Europe and who have been associated with Europe and fully understand that that is a difficult environment in which to do business; but my sense of just being there for a day-and-a-half and meeting some of the commissioners on the European commission is that the policymakers in Europe are understanding something that our President has understood all along and that is that there is no substitute for growth. If you have growth, there are a lot of other things that you can accomplish whether it be social programs or environmental programs; but, without growth, it's very difficult to accomplish anything. So, growth is an enabler and growth is what drives our ability to be a better society. I believe that the European Union is recognizing that and they are beginning to put growth policies in place. They have an agenda that calls for making Europe the most competitive area in the world by a certain date. They actually had 2010. They've taken the date out. But the important thing is that what they're saying is that they would like to overtake the United States as the number one economic power in the world sometime in the future and that should concern us all and it should be an additional motivation to continue to drive our businesses and to continue to drive innovation and productivity and use that as an additional threat. It's not just the companies that compete with us in our specific industries, but we're now talking about a

part of the world that would like to overtake this economy as the number one economy on the earth. And I would hope that that just sparks our competitive juices to continue to show the world that there is no better place to do business and there is no better economy in the world than the U.S. But, for once, I can tell you that there are great similarities between what the European Union is trying to do and what the Bush administration has already put in place. I want to spend just a couple of minutes talking about a question which I get often which is, "Why did you leave the private sector to go into government?" As you know, people don't take these jobs for the money. And, normally, you do have a sizeable contribution to make in terms of compensation. So, I've had people ask me, "Why would you do such a thing? Why would you leave your job as the CEO of a Fortune 500 company and go work in the government." And I can tell you, after two weeks, that I thought being CEO of a Fortune 500 company was the best job in the world and I was wrong. I have never experienced something as stimulating, as rewarding, as challenging as my last two weeks in the government. What really motivated me to go into the administration as the leadership of our country under President Bush? During our first cabinet meeting this last week on Monday morning – my first – one of the first meetings I attended, he took charge of the meeting. And one of the things he said is, "You know, we're not here to play little ball. We're not here to just let time go by and build a résumé and tweak a couple of things here and there and then move on to other things in life."

He's made it very clear that he is willing to confront reality. He is willing to tackle the issues that are really and truly the tough issues, the issues that require political will, the issues that can be very easily passed on to future generations because they're not going to happen and to really have an impact over the next four years. They're issues that are going to have an impact in 10, 15, 20, 25 years. We have a leader in the White House who does not want to pass the buck. And I'll tell you, having come from business and having – having been exposed to leaders all of my career, I have never seen – I have never been with a leader with the determination and the courage and the foresight that I have seen in the last couple of weeks from our President and that is one of the reasons why I am convinced that moving from my previous job to my new job is the best decision I've ever made in my career. I'll give you six areas where the President is focused and where he wants to confront the tough issues, where he wants to face reality, where he wants to confront it today and not pass the buck. One is tort reform. And we've already seen something happen. We've already seen a first step – a very important first step; but he wants to continue and face up to the issues caused by medical malpractice lawsuits, by asbestos lawsuits. And we're going to hear a lot more in that regard, but we've all been hearing about tort reform for a long time. And now we're beginning to see some action. Healthcare and energy costs – this morning I heard a lot about healthcare costs and how important it is to address it and the kind of inflation that we're seeing in



healthcare costs and the impact that that's having on companies' income statements – energy costs as well. And those are two areas where the President wants to submit a comprehensive plan to do something about it and, again, to not pass the buck to future generations. Unnecessary regulations – we talked also this morning about how businesspeople are spending time worrying about filling in the forms and complying with regulations to the point where business failure can become a huge legal liability. And the moment we have businesspeople concerned about taking risks, not wanting to take risk or risk capital or innovate because of a concern about regulation or a concern about being sued, then we should start worrying about the viability and the vitality of our economic system. We're sitting here in the birthplace of one of the greatest innovations that we know in our country – the automobile. Had Mr. Ford been worried about getting sued or making a mistake that would – that would – that would get him into deep legal trouble, I don't think he would have taken the enormous risks that he took in order to create this company that we have here today and that is represented by Mr. Padilla. So, getting rid of unnecessary regulations, freeing up businesses, freeing up businesspeople, and letting you do what you do the best which is to invest, to innovate, and to grow. Intellectual property rights – something we should all be concerned with. We have great brands. We have great technology. And, all of a sudden, we're seeing that those brands are being copied. They are not being respected. The law is not being

followed. And that is a very deep concern of the administration. And, again, the President wants to face up to that. He wants to confront it. He doesn't want to pass the buck. Trade expansion – there have been seven or eight bilateral agreements that have been signed over the past four years. There are other agreements coming up. As you know, CAFTA will be on the agenda shortly. And, once again, opening up new markets for exporters, for manufacturers, we believe that is the wave of the future and the way towards the future is free and fair trade. And for those who may have a doubt about that, flip it around and ask yourself what would be the option to free and fair trade and you'll find that, as you think through that, that does not lead to growth and vitality and prosperity. And then, finally, education is also an area of deep concern to the President. He is a big believer in the whole K through 12, as well as community colleges, as well as higher education. And you'll also be seeing plans in the future and specific concrete actions to make sure that we go to the next level. So, accomplishing these reforms won't be easy; and, with your help, we believe we have a better chance of actually making a difference. So, I'd like to ask you for a commitment today, if I may, Mr. Chairman. I'm asking for your counsel – obviously, your best advice – but also your full support to carry out the President's agenda. Once again, this is a President with an extraordinary vision for our country. And we have a rare opportunity to do things that usually are not tackled because of a lack of political will and a lack of courage and a lack of conviction and that is not the case today.

So, we have a wonderful opportunity. And I'm hoping that you will work with the Commerce Department as well as with the other members of the administration to have a real impact – to have a real impact in what will be the most competitive century we have ever lived through and what will be a very challenging time for all of us as businesspeople; but I am convinced that we will prevail and that we will continue to be the greatest economy in the world because of our system, because of our free marketplace, because of our culture, because of our values. And knowing that we have the Manufacturing Council on our side gives me great comfort and great optimism. So, I thank you all for your service. I thank you for everything you're doing for your country. We're all in this together. And I look forward to working with you. Thank you, Mr. Chairman. (applause)

Wainwright: Thank you, sir. Secretary Gutierrez, I can assure you – I'll speak for the Council – that we're behind that a hundred percent. You have our commitment. And we will continue to counsel with you and your department and drive forward the manufacturing agenda.

Gutierrez: Thank you.

Wainwright: I'd like to now introduce our Assistant Secretary of Manufacturing in the Commerce Department. That office is filled by Mr. Al Frink. Al, please. Thank you.

Frink: Thank you, Donald. Thank you, Mr. Secretary. I was inspired by your words. I share the passion that you have for this opportunity. Coming from the private sector and not knowing what it's like to be on this side of

business – the business of government – I can only tell you it might – might have been one of the greatest decisions I've ever made, although, when I came onboard here, I had a full head of hair. But I thank you, Don. I would like to also take a moment to thank both yourself and Karen for your leadership and devoted service you've given as Chairman and Vice Chair of the Council, especially this as we meet in this hall – the hall that honors one of the great innovative minds of manufacturing – the great Henry Ford. I think he'd be beaming down with pride. The power of manufacturing cannot be better expressed than by looking around at this table. We have with us today's business and community leaders from all regions of the United States. We have business associations representing hundreds of thousands of companies and members, F – NFIB, 600,000 members; NAM, 14,000 member companies; MAPI, 2,000 members – I love all these acronyms. We also are pleased that we have representatives of two federal government departments today, that is that of Commerce and Labor, both with focused interest in the manufacturing sector. We even have leaders of two of the world's largest manufacturing companies, Caterpillar and Ford. And we also have a manufacturer leading the Department of Commerce in our new Secretary, Carlos Gutierrez. Let us not overlook that the President took a courageous step by creating this new secretarial position focusing exclusively on manufacturing and services. That's a historical first. And I thank him for that honor. All of us are dedicated to assisting the force of America's

manufacturing sector. And, as a part of that, we've recently restructured the Department of Commerce. It is targeted now to assist and serve as a one-stop shop for manufacturing. Both sides of the equation are now complete. Government has restructured to assist the manufacturing community. Both industry and government stand ready, willing, and able to exercise the power of manufacturing. If we unite our efforts as a manufacturing community, we can overcome any and all obstacles that are in the way. The obstacles are numerous, but we have a President, we have a Secretary of Commerce, we have myself and many others within the Department of Commerce to make the job less taxing. As for the key issues, you have tort reform, healthcare, and energy; and they all are being seriously addressed by the President and his cabinet. We recommend that the Council and the manufacturing community utilizes its talents to further advance manufacturing in other areas; that of education, education, education, research and development, innovation, and, of course, those nasty regulations that affect us from being competitive. Now, we may need to pick one or two of those, as previously recommended, but education would stand highest on my list in my early time in this position. This will help American businesses and workers continue to outperform the world. The President has acted to make American companies more competitive, and has asked us to lead that effort in manufacturing. In order to continue doing this, government needs continuous feedback from the industry and that is why we're all here

today. That is also why I hope to expand our efforts and establish similar forms and councils in each state. The issues confronting manufacturers are not just based on national scale. As we work to unite the voices and raise the awareness of manufacturing, that is the engine that drives our economy. A great example of that, by the way, would be the state – the state that is taking action and that is Minnesota where Governor Polente has appointed a manufacturing czar – actually it's a czarina, Diane Padutsin – and they also have a manufacturing coalition instead of what they call a council. All of that is to guide the state's manufacturers into the 21<sup>st</sup> century. And Michigan has had a western manufacturing council for 15 years, I believe. Is that right, Fred? We need to build on that nationwide to raise the voice of manufacturing so that it's heard loud and clear. We hope to. And I look forward to a picture of an environment where state and federal hurdles are lowered and eliminated and that all that remains is American workers, innovation, goods and services competing against the world and winning every time. As a matter of fact, I believe it's not so much a case of leveling the playing field – we've had it working against us. I think we tilt it in our favor. That's an off-the-cuff comment. It begins with discussions like the one we are going to have today which will lead to future recommendations by this Council. So, in closing, I'll just say I'm very pleased to be here with the secretary's advisory council on manufacturing, along with leaders of some of the foremost manufacturing and small business associations and my

colleague from the Department of Labor, Assistant Secretary Emily DeRoco, who is working to retain America's workforce for the 21<sup>st</sup> century. Thank you, all of you, for coming, and we look forward to our discussion. That is all, Don. (applause)

Wainwright: Thank you. Thank you very much, Assistant Secretary Frink. I appreciate your words and thank you for your hard work and dedication in this new job that's been established – an Office for Manufacturing. We now have the pleasure of having a guest here that, of course, belongs to the State of Michigan and is the 11<sup>th</sup> Congressional District of Michigan, Congressman Thaddeus McCotter. Congressman, would you have a few words to say, please?

McCotter: Yeah. Thank you. First, if they keep raising my taxes in Michigan, everything I own will also belong to the State of Michigan. I hope to avoid that. I'd like to say that, as a resident of Michigan, however, it's very heartening to have the Secretary and Governor Engler in their new positions because I know what they've done for the State of Michigan and for manufacturing, in particular. And now they can do it not only for us here, but they can do it on a national level. It's also nice to meet the Assistant Secretary. In the time that I've come to know him, I think he's just a very decent, kind man, and his heart is in the right place. And when you combine that with his obvious intelligence, I think we're also in good hands there. With some good news, the Secretary mentioned we took steps yesterday in the House and the President signed today the end of

lawsuit abuse so that our legal system is no longer considered a jackpot. It is no longer a lottery. It is once again a legal system concerned with acquiring justice for individuals who have been aggrieved in our society. I think it's also good – and it's been, perhaps, little noted, but my fellow member from Michigan, Candice Miller, is now subcommittee chair on the Government Reform and Oversight Committee. And she'll be looking at ways that we can help reduce the regulatory burden on our manufacturers. My fellow colleague, Dave Camp, is now a subcommittee chair on ways and means. Clearly, Michigan is moving in the right direction and we are having friends in the right places to see that our livelihood, much of which came and was derived from the genius of a man called Henry Ford, made possible. I just want to say one thing and make it clear that I understand it and what we're trying to fight against in many ways. You see, when John Dingell, my colleague too, was first elected to congress, he became a champion of manufacturing. And when John came to congress, people understood the saying – and no offense to my friends from Ford or Chrysler – that what is good for GM is good for America because inherent in that aphorism was the understanding that manufacturing moves America toward a more powerful, prosperous, and purposeful age. Today, the inherent logic of that statement is lost upon many people. And so I want you to know that I understand it and I'm trying to ensure that my colleagues understand it. Manufacturing is not a regional matter; it is a national matter. And the current state of extremists



in which the manufacturing community finds itself today is not merely an economic cyclical correction. It is a dire, long-term strategic problem for this country. Manufacturing embodies not only the ability to make a living in this country but to defend it from threats from without. And, if we do not make things in this country, not only do we risk attacking our economic standard of living, we are undermining the variability to defend the foundations of liberty itself which our nation exemplifies and must preserve and promote to people throughout the world. So, what you do here today has not only the short-term economic consequences or the long-term economic consequences to your fellow Americans, it is about continuing this experiment in democracy and carrying it forward throughout the new millennium. So, I thank you for what you're doing and I'm glad you had me here. And thanks for the lunch. It was tasty. (applause)

Wainwright: Thank you much for those kind words, Congressman. As manufacturers, we love to hear a congressional gentleman like yourself speak about manufacturing in such good light. Today's meeting is more of a research meeting. And we've invited some guests today. And we will hear from those guests. We'll talk about things like tort reform, healthcare, energy costs, healthcare costs, etcetera. These people have hands-on knowledge. They're from associations and they're manufacturing people. They understand it. They've been in the business for a long time. And I think they'll be able to give us some problems and maybe some solutions and talk about the vast manufacturing sector and what we have to look at

from the standpoint of a council. I hope the Council will understand this and learn today and formulate recommendations for the Secretary as we go forward here today. I would first like to introduce a friend of mine – I say “a friend” – over the last year or so that I’ve gotten to know very well. And, of course, the people of Michigan – since he’s a three-term governor of Michigan – know him very well and that’s Governor John Engler. John now represents the National Association of Manufacturers which is the 10<sup>th</sup> most influential association in the United States and the largest industrial association in the United States, representing not only large companies like Caterpillar and Ford but small companies like Wainwright Industries. Mr. Engler has taken on the task of heading this group up, 14,000 members strong, representing about 40,000 workers in the United States. Governor Engler, we’d like to hear from you, sir, and appreciate you showing up today. Thank you very much.

Engler: Thank you very much, Chairman Wainwright. It’s a delight to be back in Michigan. I certainly want to welcome Secretary Gutierrez and Secretary Frink and Secretary DeRoco and the members of the Manufacturing Council. This is a distinguished panel. The backgrounds of the men and women on this Council reflect the value, I think, that the President places on manufacturing and the leadership of the Commerce Department in inviting you to serve in these important roles. We heard earlier of people moving from the private sector to government and thinking it was the best move. I spent a lot of years in government and moved to the private

sector. I think it's the best move I ever made. (applause) I think, in terms of welcoming this Council, I want to say that the National Association of Manufacturers welcomes you with a great deal of pride because there's a real sense that we played a role – my predecessor and people like Don Wainwright who were leaders of the National Association. We had appealed to the Commerce Department to become actively engaged, to become directly involved, really, in manufacturing issues. And, in 2003, the Commerce Department went around the country, held a series of meetings, talked to manufacturers, went out and said, "What's going on? What do we need to be doing? What can we do better? What can we do differently?" And they learned a lot. They learned what manufacturers in America are up against. That led to this report, "Manufacturing in America: A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers." It's an excellent report. The members of the Council know this. But we've got a lot of people in the audience today. This is a must read. This is a blueprint for action. The creation of this Council then came, really, from the activity of the Commerce Department under the very able leadership of Don Wainwright now and this team that's here. It led also to the creation of the Assistant Secretary of Commerce for Manufacturing and Services and that's Al Frink who is with us today. And so we're just delighted at how this has begun to move along. The report itself and the language – not only was it historic, but the language was a call to action. It was really the first time the government formally

recognized that manufacturers are the cornerstone of the American economy – that they embody – as the report described – the best in American values. A healthy manufacturing sector was neatly summed up as “key to better jobs, innovation, rising productivity, and higher standards of living in the United States.” This year, the Council on Competitiveness, around the time that the President held his economic forum after the election, released an excellent report, “The National Innovation Strategy.” And this report sort of follows up – reinforces some of the points. And they say, “American business faces an unprecedented acceleration of global change; fierce competition from countries that seek an innovation-driven future for themselves.” Secretary Gutierrez just mentioned being in Europe and how the EU and the 25 nations now – a large population – certainly the equivalent of the United States – seeks to harmonize their standards to work together to challenge the United States. A week ago, I was in Canada. The Canadian manufacturers and exporters have completed their work, “The 20/20: Building Our Vision for the Future.” It, too, describes a nation focused on its manufacturing sector and alarmed about the severity of the challenges they face. And, interestingly, in talking to the Canadian manufacturers and exporters, they view the U.S. as a primary market. Their own domestic market is their secondary market. So, what happens here is of vital importance across our northern border. In the innovation – in the Council on Competitiveness, they use a phrase that I thought captured the time well. They said we’re at an

inflection point in history – that major changes are underway that will shape human society for the next century and beyond. So, I want to talk about just a couple of points that I think are needed in America to make sure that we're not left behind. The National Association of Manufacturers has laid out an agenda that's really driven by four major themes. One – the first goal – and they're very specific when they go into the details which I simply – we will not have time in this presentation to do; but hopefully, in the conversation that follows, we can explore some of these topics. The first is lowering production costs in the United States. In a few moments, we'll hear from Dr. Tom Duesterberg. And the National Association of Manufacturers and the Manufacturers Alliance teamed up on a report that has received a lot of publicity across America over the last year. It documented clearly the cost differentials that exist and talked about a 22.4-percent disadvantage for every manufacturer just when you get up in the morning. And that didn't even have all the costs in. But that was referring to healthcare, lawsuit abuse, energy costs, lack of an energy policy, environmental and regulatory concerns. So, lowering production costs is the number one goal that we talked about. Number two – and these really all sort of – one, two, three, and four – I mean, they're a little bit interchangeable but certainly at the top, in addition to lowering the production costs, leveling the international playing field for trade. And I'll come back to this in a moment, but that's a great concern today because, again, the competition has never been tougher; and, if we're going to

agree to rules, then all the nations have to follow. A third point is to better prepare our 21<sup>st</sup> century workforce. And Secretary DeRoco who is here today is an expert in that area. But, again, it's a paradox perhaps that, at a time when there has been a decline in manufacturing jobs, we still have manufacturing jobs unfilled because of lack of specific skills – skills that are needed to – because, today, manufacturing is a high-tech industry. We ought to just say “high-tech manufacturing” because almost all manufacturing is high tech. The technology that's involved has driven major productivity gains. We've been the envy of the world; but, to continue that, it requires skills and training which is not always readily available and certainly isn't equally available across the country. A fourth point: promoting innovation, investment, and productivity. And the Council's report goes to the heart of that, but these are clearly key factors in our ability to win and compete. And Secretary Gutierrez addressed those as well, but that has a lot to do with everything from social security reform and avoiding future onerous tax burdens that are already onerous today. It has much to do with overall tax reform and simplification. It has everything to do with such tax provisions as recognizing the importance of research and development and, indeed, the entire federal research budget for basic research which has led to such innovation in America. There's a lot that we can say. Our time is limited. I just want to close by pledging to the members of the Manufacturing Council that we'll do everything we can to help you meet your goal – your duty as described in the charge to the

Manufacturing Council – your charter that says, “To ensure that government responds to the challenges facing U.S. manufacturers.” Those challenges are many and they are challenging in the sense that some of them are almost unprecedented in terms of the degree of difficulty. There are a couple of things, also, that I think that the Council and organizations like the manufacturers can do to work with the government to help ourselves be better prepared, and those are the implementation of some of the provisions of this manufacturing report which now will fall to Secretary Gutierrez and Secretary Fink to work on. But, in this report, there are wonderful recommendations in terms of promoting such things as global recognition and use of U.S. technical standards – I might suggest a daunting task in today’s highly competitive world. More and more, our ability to dictate any standards will be at risk. And so perhaps another way to look at that is the harmonization of standards where we at least have a seat at the table because I think, if we’ve begun to have to translate these from other languages in order to compete globally, we’ll be a step behind where we’ve ever been in our history. The establishment in the Department of Commerce of an Office of Investigations and Compliance and the idea there is that, with the agreements made, there has to be a way to focus on compliance with trade agreements. And that means investigating allegations of market-distorting practices. It means understanding and documenting trade agreement violations. We’ve got to pursue the elimination of foreign unfair

trade practices. And, certainly, as the Secretary mentioned earlier, have to have strong protection globally of intellectual property. Failure to protect intellectual property undercuts the innovation agenda because, at a point, how can you make the investment to innovate if it's going to be literally stolen the moment you go public with it. And a final point I would say that will help Congressman McCotter and the policymakers at the federal and the state level is a robust office of industry analysis, again, called for in the report – an office where the impact of proposed rules and regulations on economic growth and job creation in the manufacturing sector are – are well analyzed before they're put into place – before the burdens are imposed, especially when, as the costs indicate, we're already overburdened when it comes to costs. And, finally, just assessing the cost competitiveness of American industry and evaluating the impact of domestic and international economic policy on the U.S. ability to compete. Those are all charges that are laid out for an office of industry analysis. And work is already underway. I've been thrilled with the responsiveness of the department and know the Secretary – his keen interest in this. The metrics we take for granted in manufacturing aren't always available in government. We have to do better in that area. Thank you, Mr. Chairman, for the time.

Wainwright: Thank you, Governor. I appreciate your comments. (applause) I would ask the following members, as we move forward here, to please try to stay within your time schedules here. We are on a time schedule here and we



are running a little bit late. I would now like to introduce Tom Duesterberg. And Tom is President and Chief Executive Officer of Manufacturers Alliance. Dr. Tom Duesterberg.

Duesterberg: Don, thanks very much. And thanks for your leadership and that of your colleagues on the Manufacturing Council. And, Mr. Secretary, thank you for being with us today. Let me take 30 seconds to tell you who the Manufacturers Alliance is. We were formed in 1933 at the height of the worst recession known in modern times to work for the benefit of the machinery industry at that time. MAPI stands for Machinery and Allied Products Institute. Since that time, we've been largely a research and executive education organization dedicated to furthering the interest of capital investment in the best interests of the manufacturing sector. We currently have about 450 member companies. We have 2,000 senior executives who participate in our executive education programs. Our members represent over \$3.5 trillion in final sales. We have 10.8 – 10.9 million employees in our member companies. Perhaps more importantly, our companies spent, in the last fiscal year, over \$120 million on research and development expenditures and over \$240 billion in capital spending. The reason that 90 percent of all patents in this country come from – originate in the manufacturing sector, as Al and the Secretary indicated, is that we are the center of ... (end of side A) ... reflection on the risk-taking present in American industry. This recovery, which has been slow in coming but is now fully in process, has been a little bit slower; in fact,

slower than any recovery since the second world war. This can be seen in the job creation figures for manufacturing; but, since 1998, we've noticed a difference. It's partly due to the fact that we've gone from 29 percent to 35 percent in terms of the penetration by foreign producers of the U.S. manufacturing final sales market. We've also done some work on what can be a proxy for the animal spirits, if you will, of American manufacturing – the number of plant openings and plant closings in this country. And we've found that, in the 30 to 35 years prior to 1998, this country averaged over 52,000 new plant openings every single year. There was a lot of churn in the market but, overall, there were more plant openings than closings. Since 1998, and especially in the new millennium, the number of plant openings has declined to an average of 36,000 to 40,000 per year. The number of plant closings has remained more or less stable, but we have not generated the new plants and the new capital investment needed to continue to grow the way we grew in the 1980's and the 1990's. One reason we think for this is that the competitive landscape is getting more and more difficult, but we're also inflicting some wounds on ourselves through the imposition of costs that are directly related to policy. As Governor Engler mentioned, we co-authored a study with NAM on the overhead costs due to policy-related matters. And we found that, if you take raw unit labor costs in the United States in manufacturing and compare it to our nine leading trading partners – everybody from Germany and France on the high end to Mexico and China on the low end – if you

factor in the costs for corporate taxes, employee benefits, tort costs, natural gas costs, and pollution abatement costs, we add over \$5 an hour, on average, to the cost of manufacturing in the United States compared to our major trading partners. And we think many of the priorities that Secretary Gutierrez mentioned, especially addressing healthcare costs, the high cost of energy – and we all need to remember that five years ago – ten years ago, we were a low-cost energy producer in this nation – supported the chemical industry, the paper industry, everybody in manufacturing uses vast amounts of energy. So, we think that we need to address these policy-induced costs to the best of our ability so that we can level the playing field and regain the animal spirits of innovation which America is known for and which Henry Ford was the emblematic representative of.

Wainwright: Thank you very much, Chairman. (applause) I'd now like to introduce Dan Danner who represents the National Federation of Independent Business which is the largest – nation's largest small business advocacy. Dan?

Danner: Thank you very much. It's a great pleasure and privilege to be here. As someone who had the opportunity to serve at the Commerce Department, I appreciate very much being here today. We are an organization that represents just small business. All our businesses are independently held and many of those are family businesses – the kind that have been in generations for years. We have 600,000 members in all 50 states, and

about 10 percent of those are in manufacturing. Many of our members really are the small of the small – the 10-, 20-, 30-employee kinds of businesses. Many of those have gross – gross receipts in the one-, two-, and three-million-dollar range. So, they are truly small businesses. I think it is important to note where small manufacturing firms fit in the economy today. There are about 350,000 manufacturing firms and, by number, small firms' share is about 98 percent of those. The total employment of about 16 million in manufacturing and small firms' share is about 41 percent of that. And small firms represent about 30 percent of the total manufacturing output, so small firms do represent a big part of the economy. They've also been the greatest job creators, accounting for about two out of three net new jobs over the last 30 years. Small firms are innovators. They're more likely to employ younger workers, older workers, former welfare recipients, women, immigrants than larger firms. Our organization was founded in 1943 to provide a policy voice specific for small firms. We have some interesting traits over some other associations. Our positions are set by direct votes of the members. We ask our members to vote a ballot on what our position should be. And, interestingly, we have dues for our members capped at \$2,400. No member is allowed to pay more than \$2,400. But we also have a very significant small business research operation. We produce an economic report that tracks employment, capital outlays, inventories specific to small firms, and have crossed tabs back to 1973. That has turned out to be a

very good predictor of where the economy is going. Now, we also produce a wide range of other small business specific research – products on things like healthcare, trade, and business alliances. Without question, the number one issue we hear from small manufacturing firms is the cost and availability of healthcare. For them, it's a competitive issue. It's an issue in attracting and retaining employees. And, for small firms, it's a very personal issue because most people in small firms know the first names of their employees, their spouses, and their kids. And the issue over being able to afford and provide healthcare is a very personal one. Small firms are at a disadvantage in providing healthcare in the market place. They can't insure – self insure. They don't have the quantities of scale and bargaining power and the savings in administrative costs that large firms do. So, those that purchase in the small group market generally pay more. Their premiums are going up higher than large firms. So, healthcare is the most significant issue for small firms. I'm honored to be here and I look forward to working with the Council and the Department as we address, together, the challenges of large and small manufacturing firms in the country. Thank you.

Wainwright: Dan, thank you very much. (applause) Secretary Gutierrez, I understand that you're going to have to leave us. I hate for that to be the case, but I understand there are pressing issues and we appreciate the time that you've given us. And, as a council, we will back manufacturing and bring

to you the forefront of what manufacturing needs to keep us in the forefront.

Gutierrez: Thank you. Thank you, Mr. Chairman.

Wainwright: Thank you very much, sir. (applause) I would now like to introduce a special guest, Emily DeRoco, Assistant Secretary of Labor of Unemployment and Training Administration. Emily is with us today to talk to us about unemployment and training administration. And thank you, Emily, for being here. We really appreciate it. And it's a very important subject for everyone around this table and in this country.

DeRoco: Mr. Chairman, thank you. And we're real focused on employment and training, not the unemployment side of the equation. I want to –

Wainwright: Excuse me.

DeRoco: – thank the Assistant Secretary for inviting me. I suspect he knows we share not only a professional portfolio, but the passion that a Pennsylvanian brings to manufacturing. I want to take just a few minutes and share with you – some of you know this. I've spent a great deal of time in the last 18 months talking or meeting with manufacturers both large and small. And I haven't been talking; I've been listening because it has been our intention to try to understand what the workforce challenges are facing American manufacturers. And I've come away from those meetings, forums, and plant tours with a deep understanding of the fact that we have immediate and serious workforce challenges. There are lots of reasons for those. I suspect that the top three are ones you could

name as well as I. Number one, the demographics of our workforce simply are working against manufacturers. As the baby boomers retire, you will experience a significant decrease in the sheer numbers of individuals on your plant floors. At the same time, young people are not choosing to enter manufacturing as a career. Why? We have an image problem. Young people, parents, guidance counselors – what few remain in our school system – still have the image of Andrew Carnegie's dangerous and dirty steel plants, not the Rouge as we saw this morning. And we need to deal with that. And, if young people did choose manufacturing, we don't have the capacity in our education and job training systems to deal with the competencies and skills that they need to be successful in the jobs of the 21<sup>st</sup> century manufacturing economy. We don't have as a nation a vision for the technical education, post-secondary alternatives that are needed in order to equip our young workers and transitioning workers with the skills they need. So, what do we do about this? Right now, every year, taxpayers in America invest over \$15 billion in what we call the public workforce system; that is, your employment and job training system. I no longer believe that there's a difference between the education and job training system. I think we have to understand that workers need to be equipped with an academic foundation, gained in K through 12, regardless of the job they're going to seek. And then it is our job to expand the post-secondary alternatives to ensure they can obtain the skills and competencies they need to be successful in a 21<sup>st</sup> century

job. We need to change the direction of this 15-billion-dollar system from a social services model to an economic development model. The President has said, "Make it demand-driven." So, we have launched something called the President's High Growth Job Training Initiative. Within the past years – year, we have invested over \$58 million in powerful projects that are designed by employers and involve educators and the public workforce system in meeting the workforce challenges that the businesses have identified. Just a few examples: Caterpillar took the lead in designing for us an integrated systems technology curriculum that has now rolled out to 12 community colleges in six states and will soon have nationwide distribution. We are developing career ladders and training programs in four advanced manufacturing fields in the commonwealth of Pennsylvania. We are supporting just-in-time training modules for the metal-working industry. And, last, we are – not least – we are supporting NAM's Dream It, Do It Career Awareness campaign. I'm most excited about two big projects coming down the pike where, in one state, we're looking at the whole chain from R&D to commercialization to small business development, and the workforce development that needs to accompany each stage of the manufacturing process. And, in another region of the country, through the MEP, we're equipping small and medium-sized firms with just-in-time training so that they are ready to respond to RFPs – the big RFPs that they otherwise would be shut out of. So, there are great solutions for the workforce challenges if we get



ourselves together and work as a team. At the federal level, that means commerce, education, and labor. At the community level, it means your business is driving educators in our public workforce system to invest the resources wisely. The President has added his community college initiative to this mix, which is another \$250 million, to equip community colleges with the capacity to train in manufacturing and other growth fields. And, finally, he has proposed major job training reform to change the course of the institutions of government that support education and workforce training. The innovation economy of the 21<sup>st</sup> century requires very different institutions than we needed in the 20<sup>th</sup> century and, most importantly, a very different relationship between business, government, education, and workers. It's time that we make that relationship happen. I think that the Council has a strong role to play and I'm eager to work with you to address the workforce challenges facing advanced manufacturing, Mr. Chairman.

Wainwright: Emily, thank you very much. (applause) I apologize. I see it truly is for employment and training.

DeRoco: It is employment and training. Absolutely.

Wainwright: To avoid unemployment.

DeRoco: We would leave no worker behind.

Wainwright: Thank you very much.

DeRoco: Thank you.

Wainwright: I would like to now introduce one of my panel members. And, Fred, I'd also like to ask you to keep your remarks within the time limit here.

Keller: You bet.

Wainwright: Mr. Fred Keller, Chief Executive Officer of Cascade Engineering will speak on innovation. Fred?

Fred: Thank you very much, Mr. Secretary and Mr. Chairman and Mr. Secretary. My remarks today will be from the perspective of small to medium-sized manufacturers. Since they are uniquely positioned between very large manufacturing customers and suppliers, small to medium-sized manufacturers receive price pressures from customers who have offshore options and cost pressures from suppliers who are driven by rising commodity prices. Small to medium-sized manufacturers account for the vast majority of jobs in manufacturing and yet are at the greatest risk of closing their plants as excess capacity is being driven in nearly every sector by global pricing and improved technology. Manufacturing in America with small manufacturing – small to medium-sized manufacturers – remains under stress. Even as we have slowed the decline experienced over the last several years, generating the profits to continue our productivity improvements and growth remain difficult and, unfortunately, plant closings are not unusual. In addition to the well-documented issue of leveling the playing field, the hope for a small to medium-sized manufacturers, as pointed out by the Secretary, in the future is through innovation. Innovation is the historical and current strength of small to

medium-sized manufacturers. Innovation takes many forms in technology, both product and process, in business design, and in new markets. Product innovation must – most – product innovation most quickly comes to mind. The American manufacturer has a significant advantage in dealing with their American-based customers as they assist in the design of products shoulder to shoulder. Using innovative new processes and materials, we are able to develop new and more efficient solutions that bring real value to our customers; but also new business designs such as consortia and alliances and partnerships are leading to innovative relationships that assist both customer and supplier. The manufacturing extension program – and we're learning the Department of Labor – has a major role to play in expanding and accelerating these relationships, but perhaps the largest possibilities come from innovative new markets. The new high-growth industry of biomedical products offers opportunities. As we face dwindling energy resources, there promises to be a whole new industry focusing on conservation and alternative energies and fuels that will provide creative new opportunities for manufacturing in America. This would appear to be a very important and attractive place to focus policy attention – a true win-win as new industries are created and resources conserved for future generations. Many small to medium-sized manufacturers are within 20 percent of competing with sources in other parts of the world. As more and more decisions are made to move capacity offshore, we are at risk of losing additional vital industries such as

machine tools and foundries that supply them in order to capture that 20 percent. There are well-documented extra costs that we incur in this country as responsible businesses that our competitors in other countries are not paying either through lower quality of life standards or the government policies that create expansionary incentives that, in effect, subsidize their costs. All the while, they are operating with currencies that some would say are overvalued. Policy is desperately needed in this area to stem the loss of vital industries as we continue our drive to improve our costs. Each and every surviving manufacturer is on a personal and urgent hunt for waste in our systems. We are analyzing our value streams in innovative ways never dreamed of before, and the result is that the best will reduce costs by finding these opportunities to eliminate that waste. Lastly, innovation in the innovation process itself needs to occur at the university level. There appears to be a very large opportunity for improving the interface between universities and small to medium-sized manufacturers. Universities are expert in advancing science but, when it comes to advancing the economy through creative links with manufacturers, many feel there is a large opportunity for improvement. Manufacturing in the small to medium-sized sector is hanging on as the economy turns the corner. We do not expect to return to previous levels with more of the same; but through innovative approaches in product processes, business design, markets, university research, and waste reduction, we see hopeful opportunities for the future.

Wainwright: Thank you, Fred. (applause) Now, I'd like to hear from one of my other board members and that is Jim Padilla of Ford. And, Jim, I understand you're going to speak to us about research and development.

Padilla: Well, I think that, in a way, Fred and I are very complementary in terms of the focus we have. And I think you'll find these to be very compatible. Before I start, though, I really want to thank everybody for coming here today. We have many suppliers to the auto industry today. And I thank you for responding to this event. We have our lead representative from the Consulate of Mexico, Antonio Mezza, here because I think all of this affects all of North America in many ways. You know, we spend a lot of time as individuals going back and forth to Washington. It's not often that Washington comes to us. So, we should feel pretty good about that. (applause) I think it says a lot about this secretary – Secretary Gutierrez – and his willingness to reach out to our Assistant Secretary and lead in the manufacturing arena, Al Frink; but he is really out there working with us. You know, some months ago, Don asked me to take on the lead for the subcommittee on competitiveness and we kind of debated what the issues would be and we decided that we'd take on tort reform. So, George and Wayne, Charlie Pizzi, Mike Nowacs, and I, we said, "We'll go out and do something here." We put together a paper. We (inaudible) the paper. And, quite frankly, I was a bit skeptical; but, in all honesty, within a few weeks of our submission, Secretary Evans and the President took those issues and moved them forward. So, I was very pleased with that. And I

think we saw the first evidence of that in terms of the reaction from congress and now the bill signed by the President today. So, I'm very encouraged. And I guess my message to the group is we've got to put aside our skepticism – our national skepticism – and we've got to figure out what we can do and we've got to speak up. And we've got to speak up as a unified group. No single individual, no single corporation, no single group within government can do this; but, collectively, we can make a difference. Now, Governor Engler mentioned the Council on Competitiveness report. And it is, indeed, a very powerful report. And, in that report, it clearly indicated that innovation is going to be the single most important factor in determining America's success through the 21<sup>st</sup> century. And innovation is pervasive in small and medium business, as Fred has mentioned, and it is pervasive within large industry. Just being here within the Henry Ford – the home of manufacturing innovation in the 20<sup>th</sup> century should remind us of that. And the fact that we were able to go into the new Ford Rouge complex and see the innovations that we've put forward there, not only in terms of manufacturing but in terms of the environment, in terms of providing for sustainable manufacturing which I think will be very crucial as we face the future, and it tells you that there's a way to go about this for the 21<sup>st</sup> century. So, in my view, innovation is going to be key. It's going to be key for our manufacturing competitiveness for all of us and for this nation. It's also a primary engine of wealth. When you look at manufacturing and you see that, you know, it

contributes more than \$1.5 trillion in annual output – more than 17 percent of our GDP – it's remarkable what leverage this collective group has. And it creates a lot of good jobs and that's very important. And they do depend on a high degree of skill. And we do thank the Labor Department. Emily, we appreciate you being here because this is an important facet of how we go forward; but there is a tremendous amount of pressure, believe me. I'm going around the world and the challenges are huge. The pressures are everywhere. And, in particular, as Fred says, the alternatives are out there, be it in the consumer marketplace or be it in the competitiveness for compliments and the like. If we don't do it, somebody else will and we won't be at this table anymore. So, we've got to think about that. You know, innovation is everywhere. And what we need to do is to stimulate that in all the workforce in all of our companies. Let me give you a few examples of innovation in the auto industry. Did you know that last year alone the combined investments that Chrysler, GM, and Ford made in R&D was \$16 billion – \$16 billion – a huge sum. You know, innovation takes place in the factory. Innovation takes place in the product. Earlier today, I had the chance to take Secretary Gutierrez for a ride in the new Ford Escape Hybrid. This is an innovation. It's the first full hybrid SUV, no-compromise vehicle. I told him that we have over 100 patents on the Ford Escape Hybrid. I also told him that this was all developed by Ford Motor Company, not somewhere else. Yeah, we paid for some patent coverage but we didn't use them. We just didn't want to infringe. That's

the legal system. This was all homegrown. So, we have the capability within our environment. And, frankly, we're pushing it in many ways because petroleum won't be here forever. We have to have some alternatives. Hybrids may be an alternative and we're working on those. We're working on hydrogen-powered vehicles, internal combustion, fuel cells, and the like. We're also working on clean diesels – all of these things. We must prepare ourselves for a different future as we go forward. But one thing for sure, our people in this economy will insist on independent personal transportation and we must provide that. So, innovation will be key to that. Today, Bill Ford was down in Florida. He was with Governor Jeb Bush. And we launched a fleet of hydrogen-powered Econoline 350 buses because we need to get along the hydrogen highway. And Florida has seen the wisdom and they've taken the first step. So, those are the things we need to go forward on. And we need to continue to make these leaps forward. But, again, I mention that no group, no organization, no company can do this alone. We're going to need to do it collectively. And, frankly, the nature of competition is so intense that the lead time for innovation has shrunk dramatically. And your ability to maintain leadership once you have innovated is shrunk even more. There are more fast followers than you would ever imagine so it's very critical that we keep that in mind. And what that says is, relative to innovation, you must have a process that allows you to have a continuous flow stream of innovation." And, by the way, the benefits of innovation



cascade everywhere, not just, per se, into your industry, but into other industries, into other parts, into the government, into the defense industry. And that is an important part of national security. You know, when you talk about R&D, the federal government supports about \$132 billion a year in R&D and that is indeed a significant amount. But I have to tell you, as a percent of our GDP, it has declined. The peak was in the 1960's. It was about two percent. It's going down. And we need to think about that as to where we are making the investment because a good chunk of that innovation has been spawned in universities on joint collaborative projects with industry. And we probably should be asking ourselves, "How do we grow that type of investment and expand our partnership with government and with the various institutions of higher learning?" We certainly need to make sure that we extend the research and experimentation tax credits that are out there. Our ability to spend the six to seven billion dollars a year with Ford Motor Company – frankly, we need everybody's help we can get. So, with that, we certainly appreciate your support in the past and we look forward to the future. It's not a time to stand backwards. It's a time to step forward. So, today, I really want to thank you for being here. I can commit that we will be here with you, Don, as a team, supporting this Manufacturing Council. We've got a good team here and we have a responsive administration. And I think we can even get more results. So, thank you very much.

Wainwright: Thank you, Jim. (applause) I want to thank all of our panelists for the information they brought forward in their discussions. And now I'd like to lead a general discussion among all of us here. And I would ask that the public would hold their comments and I will open the floor for public comments later. But the Council and our guests, I would like to lead off. Do I have anyone that would ask a question of one of our panelists? Jim?

Owens: Maybe just a comment. Dan, you talked about the small manufacturers of the world and certainly Caterpillar and Ford represent the larger sector, but I know both of us rely very, very strongly on the infrastructure of small to midsize companies throughout this country. And we buy – over half of our manufacturing costs is purchased material which comes from, largely, small and midsize manufacturers. Their employment is two to three to one ours. And we're very reliant on a vibrant sector. So, I think the regulatory environment that's driving some costs these days that impair competitiveness of American firms is very important to us, not only as it impacts us directly but as it impacts our key suppliers and partners in business.

Wainwright: Thank you, Jim. Any discussion from the panel on that? Yes, Dan?

Danner: Certainly one of the things that is extremely important – and we've, in fact, done a recent study on the alliances that small business firms build with larger firms and it is a critical part of their survivability today. I think more than ever before small firms have built – are continuing to build and view

alliances with – in most cases, long-lasting alliances – with larger firms as an integral part and key to their success and survivability.

Owens: Absolutely. An important partnership.

DeRoco: Just adding to that, as I mentioned, this is particularly true in terms of incumbent worker training. Small firms are particularly pushed when it comes to any immediate turnaround of their workers' skills when new technologies or new business processes enter the workplace and the ability to build a consortium. And this is why I think the MEPs are important – to use the MEPs in a facilitator role – a catalyst role – to make sure that worker skills can advance in small to medium-sized firms – are absolutely necessary to assure small firm stability.

Wainwright: Wayne?

Murdy: Let me just make a comment because Dr. Duesterberg made – made reference to risk-taking. And we live in a society now where we see so much effort put on somehow guaranteeing results and that has a direct impact. I think Jim's comments on R&D – if a business is not willing to take risks, we'll lose the ability to be innovative in this society. I think, you know, some of the – whether it's regulatory area relative to some of the corporate scandals, some of the things that are going on in the drug industry, there's a balance that needs to be – that needs to be struck between risk and reward, violating public trust, and the consequences of that. And I think in many of these areas we do seem that that pendulum

has swung so far and that's going to directly affect our competitiveness as we move forward in this century.

Wainwright: Thank you, Wayne. Yes?

Stowe: I'd like to ask the Congressman or maybe Al – we talked a lot about healthcare. Does the administration have some specifics that they're looking at to deal with I think what was shared here – that we do have serious healthcare problems? From the government side, what are those solutions?

Frink: Wouldn't I be a genius if I could just come up with a few answers to resolve that? I don't think it's a simple question. I think it's a combination of many areas that need to be looked at. I think Governor Engler did a good job earlier of outlining some of the things that we need to be doing. The healthcare industry itself needs to be resolved. They're not fixing the problems themselves and yet we are kind of being held hostage to their high costs. I think we need to reverse – we need to reverse the arrangement, produce standards of expectation that they would need to follow much like large companies hold their small manufacturers accountable to, and the information technology that they have not put into place is affecting so many areas – the costs. The legal system, if I get hurt – I'm from California. If I got hurt in Washington, I'm not so sure if, based on the injury, I'd get the kind of treatment I would need because they would be worried about malpractice lawsuits because they weren't able to get the information quickly enough. If that was in the information

network instead of on cards that my doctor has in his office, I would probably get the attention it needed. And so it's a case of us – the way the Council has viewed it – and I think Fred's work really speaks for itself – is that we need to take – we need to take our experience as manufacturers back to seeing lean manufacturing and work at reversing that process and teaching the healthcare industry to be responsive to the manufacturers that are bearing the burden. So, Governor, do you want to add any other points to that? There's more than just – the President's healthcare association – I think that would force the healthcare industry to be more competitive, just as manufacturers are held accountable to that. So, if they had to sharpen their prices because 40,000 manufacturers – small manufacturers banded together to get better healthcare, then maybe some of the infrastructure that they would be forced to put into place to make them more efficient and reduce the costs would come to bear. So, it's – there's just a lot on the table there. That's part of what we're going to be trying to do. I think part of the initial work was to determine the cause of the healthcare situation from this Council – in other words, to put a plan in place of recommendation as we move forward. So, it's a community answer. It's not just the government. It's all of us together.

NV: I think the Congressman wants to give us the solution. So, I don't want to

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McCotter: Well, I can put the problem in a nutshell. It's a problem that you face every day when you're assessing costs and competitive measures. It's

the law of supply and demand. See, I'm not a baby boomer like the governor. My generation is smaller than the one that went in front of it, numerically. There's going to be an enormous strain on the system because you have – right now, with the mixed governmental system, you have a finite supply of healthcare and a demand growing exponentially every minute. When you then combine that with the way that the federal government is yet to determine how were going to take care of issues such as Medicaid and the fights between the states and the federal government, what then happens is you now have a logical dichotomy. You've lost the inherent logic of your insurance costs which is your utilization of the system. Like in – for example, theoretically, when you have car insurance, if you're driving your car and you drive it in a safe, responsible manner, your insurance rates do not go up too high. If you drive poorly – you hit deer, you hit pedestrians, such and such – then your costs will shoot through the roof. You have some semblance of control over you health insurance – pardon me – over your driving insurance costs. What we see today is that, within the system, because of the structural breakdowns in the system, the demands, the problem of supply and demand, then you have the situation where the government, in many cases, has yet to fully fund Medicaid or other areas, as you will see that that cost is passed on through the system to everybody. It's much like the trial lawyers do. They look for the deepest pocket they can find and stick them with as much of the bill as possible. When you see that, you now, as

business entities, have lost the inherent logic of the health insurance because your access to the system, the number of people that you cover, has no rational relationship to the increases that you've seen over time. And I get chary when you see some of these shortsighted attempts to address the law of supply and demand, which I think actually set us back, such as the re-importation debate, when we've seen people proffer Canadian prescription drugs as a (inaudible) when, in reality, we're going to (inaudible) whose taxpayers don't want us raiding their back pocket to fatten ours. What we need to do is take it from that fundamental premise, inject competition into the system much like the President has done with association health – allied health plans – AHPs – much like we're trying to do with health savings accounts to get people more responsible – that it is your money you're spending. There is no free trip to an emergency room. There is no free access to healthcare. And then continue on that with some of the more at-risk people in our society – the lower income. You set up federally-funded health clinics which is the first step to keeping them out of those emergency rooms which drives the cost up and you combine that with something that Representative Price has – is a project navigator that helps poor people steer through the system. And, as they learn and are more comfortable with the system, they realize they have a stake in the system and that they don't have to go to the emergency room. Then you're beginning to reduce those costs that are ultimately passed on to the health insurance. So, these are some of the starting points that I

think that we have to operate from. Let us never forget what the fundamental premise is. And, unless you believe in something like Logan's Run – that we – there are more compassionate ways to deal with this.

Wainwright: Thank you very much. That was very enlightening coming from the government sector.

McCotter: Yeah. Governor Engler taught me well.

Wainwright: Any other questions? Jim?

McGregor: Donald, a workforce issue side. Jim, I'd like to thank you for your hospitality today. I thought the video that we saw this morning early about the early days of this facility here and then the opportunity to walk out into the facility and see what a real state-of-the-art manufacturing facility looks like today is a real great honor that our small group had. The thing that troubles me is the American public doesn't know a lot about what manufacturing is today. And I think we have a great responsibility from this committee to make sure that somehow we reeducate people from thinking about what it was like in the Henry Ford days in the early 1900's, and what it's like today, just down the street, in 2005. And it concerns me greatly when I'm with peers of my own and we talk about our kids and say, you know, "What are your kids going to do when they get out of school." And I've heard people say, "Well, they aren't going in the metal stamping business." And it bothers me because this is a great country and we all got into certain businesses that we're in today for a livelihood and, in the



past, maybe a good time. These are more difficult times that we're in. And we struggle with where we are; but, without the workforce of the future and the help of Emily to help us educate them and train them, we're going to have a problem. So, I really believe the Council needs to work on some form – some way to make sure – and there are other facilities just like this around America and we've all been in them – because this is the way people are going to survive in the future. So, I think it's critical for us to be able to have our workforce of the future. And thank you for the opportunity to be here today.

Padilla: Thanks, Jim.

Wainwright: Jim, thank you very much. Governor, being a member of the National Association of Manufacturers, I know that we've made some headway there. Would you talk a little bit about our manufacturing institute and some of the things that we've tried to do in the grade schools to change that image of manufacturing?

Engler: Sure. I think the – Emily referenced earlier being supportive of the Department of Labor of our Dream It, Do It campaign which really is focused on young people and relatively young people who have gone through the system. It's an 18- to 26-year-old population. So, it's really kind of, at this point, post high school or post dropping out and running through that period where you would have completed high school and trying to inform that age of population about the potential of careers in manufacturing but, at the same time, bring to them an awareness of what

is going to be required to be in manufacturing today because it's not – it's not just about having a dream. In fact, I've sort of suggested that in the middle of that needs to be learn it and then do it because there's a little learning component that's real important. I think it's a – it's a way, also – and we've kicked it off in Kansas City, and Houston will be the second community where we're going to work on this; but the idea is to try to engage sort of the interested stakeholders – and those are community college leadership, business leadership. In the case of the philanthropic community in Kansas – say, the Kaufman foundation – has been a very strong partner. They've stepped up. And the Division of the Department of Labor, with the National Association of Manufacturers, our manufacturing institute which is actually headed by my predecessor, Jerry Jazinowski and Phyllis Sizon, who has this project. What we want to do is begin to reverse – and it's been mentioned a couple of times, but there just isn't an awareness. And Jim just really related that. I mean, I'm not going into – I'm certainly – what am I going to – this isn't like farming. I'm not – you know, there isn't a farmer that's raised a kid who is going into farming. And just like a metal bender, there's nobody that wants to do that; but the reality here is that there are a lot of very good jobs in this high-tech manufacturing sector. We saw that today at Ford. And we saw in the film – both films, actually – the depicting of careers where you know you just don't walk in and start running a complex system or be in charge of the computer programming that's going to run this. You might not see

in that film the software engineer who is offsite who actually, you know, wrote the code that's driving that or helped build the robot which got built by one of the suppliers and brought in. And so part of what we're trying to do is say, "This is exciting. And, in manufacturing, you build things that people want to buy that are out there every day." Ultimately – I won't be as long as I spoke before – just – where this has to drive down is into the high school and before so that we start to get an earlier recognition of this career path. And every now and then somebody will pop up – I think there was recently a report in Michigan suggesting what we need is we've got to have more people going to college. That's not what we need. We need everybody with skills. That's what the goal needs to be. You get the skills at different levels. Some people may want to go on to college to get more skills, but this is America. You can also get the skills, go to Ford, and then become a poet. You can go to the University of Michigan-Dearborn campus, and you can become a journeyman electrician, an electrical engineer if you want. There are all of these paths that are open. What doesn't work is to choose no path, to drift around, end up with a dependent or two or three, have all kinds of bills, or you can go off to college and not know what you're doing and get all kinds of student loan debt and then you come back and we still find you in the community college where maybe you should have started in the first instance. Again, we're not, as a society, driving anybody into any particular career path; but it's long past the time when we better be very clear that you have to have

a career path. You've got to have one. And we've got big school systems like in Detroit which are clueless on this stuff. You've got a significant problem going on and that carries over to society, adding tremendous burdens, and we're trying to pay for it.

Wainwright: Thank you, Governor. Secretary DeRoco?

DeRoco: I have another challenge for the Council and it's one that Caterpillar and I shared as we worked on the integrated systems technology which is, if we agree – we address the image and young people begin to look at their post secondary alternatives and we have the resources, if we use them effectively, the question then becomes train to what. The industry, as a whole, needs to assure that we have the skills and competencies identified so that the education we're providing and the training we're providing actually prepares workers for the jobs that are being created and going to be created. That's a tough task. It's something government can't do. And, quite frankly, educators are sitting waiting for leadership from business and industry for you to do what is the hard work of defining the skills and competencies to drive this investment. You've had sub sectors do that – the National Institute of Metal Working Skills has developed its competency model and, from the competency model, has identified an apprenticeship program and, from the apprenticeship program, an articulation to community college and the four-year engineering degree. That's fabulous. It's a pathway. It helps – it makes sure that the taxpayer investment is going to the right place in the right way; but it's a big task for

the manufacturing sector to take on and something, perhaps, the Council could provide leadership on.

Engler: I do want to add to that, though, if I might, Mr. Chairman, that – that – that I don't want to give education any reason to sit idly by while they're waiting for manufacturers –

DeRoco: Oh, no, no, no, no.

Engler: – to define more clearly what's needed because, to my knowledge, there's no room for anybody out there who can't read.

DeRoco: Absolutely.

Engler: There's no room for somebody who can't compute. So, I mean, there's a lot to be done before –

DeRoco: Sure.

Engler: – we get worried that manufacturers haven't been quite specific enough about what's necessary.

DeRoco: Oh, I agree with you on that.

Engler: And I know that wasn't what Emily was saying, but –

Wainwright: I have one more – time for one more and Jim Padilla has –

Padilla: I think that one of the things we should be looking at is how we can form partnerships within our community for this type of development. I'm on the board of an organization called Focus Hope in Detroit. Focus Hope was founded after the riots in the heart of the most difficult area of Detroit to provide opportunities for individuals who might not have had the opportunities we've had and to provide them with training as machinists or

as IT technologists. And we take them at whatever level as long as they're determined. And, if they can't make the grade coming in, we skill them up and then, within a couple years, they can be trained machinists, take on jobs, go on for an associate's degree; and, if they're really determined, we provide a path with partnerships with universities so that they can get bachelor's degrees in manufacturing or mechanical engineering. And we've found this to be extremely successful. People who are willing to do this – to spend the time to be educated, to go through this type of training – they make the best darn employees; but it's not something that we can singularly do. My message here is we need to be teaming with some of the local organizations to draw on their skill base, to draw out the individuals, and then to help seed them with training and skills and funding. And I know the Labor Department has been helpful for Focus Hope. The State of Michigan has been helpful. Many of the companies in this room have been helpful. But this pays benefits. So, thank you.

Wainwright: Thank you, Jim. Congressman McCotter?

McCotter: Thank you. As someone who drifted about aimlessly in pursuit of a poetry degree, I'm going to have to take my leave because my government job I have requires me to be in two places at once. So, thank you all for coming here and thank you for having me.

Wainwright: Thank you. (applause) I would like to ask our Vice Chair, Karen Wright, if she would please sum up our discussion today. Karen?

Wright: Well, I would like to say that this is a very new group. There never has been a Manufacturing Council before. This is only our third meeting. And it is up to this group to essentially define itself and to decide what it is that we want to do. And, as I've gotten to know the other members in the group, I have to say it's pretty impressive brain trust. And I think it's truly a wonderful opportunity for this group to provide excellent advice to the government, to the Department of Commerce, to the Department of Labor, and so on. And I think it's important to understand we are not lobbyists. We are a group of volunteers. We get together because we really care deeply about American manufacturing. All of us are business leaders. We all have full-time jobs. And we do really know what the issues are that are facing manufacturers today because we're all manufacturers. So, we would like to be taken seriously and to be recognized that we want to represent American manufacturing. We want to give the best advice possible to the Department of Commerce and other government groups so that America can remain strong – can remain the leader in the world as the manufacturing capital of the world. So, that's – that's how we see ourselves and I think that we're going to get there. And this is a great group. So, thank you.

Wainwright: Karen, thank you very much. I would like to now open it to the public for questions and to the Council and to our guests – if we have any questions. Now, do we have microphones? Okay. So, we have microphones

available. If you have a question would you, please, step up to the microphone – or a comment.

Sibatow: Hello. Thank you. Thank you very much. My name is Shawn Sibatow, and I'm with Congressman Joe Knollenberg's office. And I just wanted to just briefly thank the panel and, in particular, thank the Department of Commerce – both the Assistant Secretary and the Secretary – for taking the time to come to Michigan today and also to wish our Governor Engler a welcome return home and good luck in your new position. So, thank you very much.

Wainwright: Do we have another on this side?

Swanson: I'm sorry. I told Congressman McCotter as he was leaving that I was going to tell this story on him. My name is Jeanie Swanson. I'm with Eenie Manufacturing. Eenie is a very active member of NAM and also the PMA. And I have to tell you we have the most fabulous group here and also in Congressman McCotter. The story I wanted to tell on him real quick – and it does have a question at the end, I promise – was that a few weeks ago, through the Henry Ford Community College spreading the word of manufacturing – I'm blanking on the group – but we had a group of high school students come to our facility. We gave them the tour. This is actually the second time the students had come and they wanted to get more in-depth on what goes on in the world of manufacturing. And, as we got more involved into the afternoon and they started asking questions about, you know, how – how are we going to remain competitive in, you



know, the world economy. And it really – these kids were 17 years old and they were very, very passionate about this. I kid you not, they were starting to get excited and Congressman McCotter walks into the room. And he said, “I can answer your questions.” I thought the kids were going to hit the floor. They said, “Well, what is Washington doing?” They were – they are all now writing the President to tell him how important manufacturing is, not only to this state of Michigan but also to the entire economy. And all it took was just a little bit of initiative from – you know, from us and also from – you know, from Washington and from, you know, all these different organizations, to really get these kids excited. And I told Congressman McCotter, “Do you know what? Even from a voting standpoint, those kids went home and told their parents, you know, what kind of afternoon that they had.” And we had – we had them lining up. You know, from a business standpoint, I was floored. They didn’t even want to – now, of course, we never took them up on this – they didn’t even want to get paid. They just – they were volunteering to work for free for us – for Eenie – just to be able to see and learn about manufacturing. Of course, we didn’t take them up on it – free labor – you know, free child labor. But the question they had was – we had such a fabulous – as a company, a fabulous experience teaching these young kids. Is there any sort of initiative to get more companies involved and get further in this because, you know, we’re kind of on the bottom half of the ranks. We’re a

small metal stamper in Plymouth. But is there anything – initiative coming from you guys?

DeRoco: I can add a few thoughts to that. Under the President's high-growth job training initiative, many of the projects which are community-based projects – again, driven by manufacturing companies like yours – involve internships and externships for teachers coming in for summer, after school activities, as well as actual learning experience – contextual learning of the classroom in the plant or on the floor. I think that in every community where they are looking at the power of this partnership of business, educators, and the public workforce system, those ideas are always on the table, always part of the project. And the more we do that, the more success we're going to have with our young people. And it does involve bring – the public school system comes along sometimes kicking and screaming after the kids. So, it's a great way to get your public school systems involved, as well.

Wainwright: Thank you very much. I'll tell you one thing, if we could bottle up that enthusiasm of yours, I think we can do some good (inaudible) around here.

DeRoco: That's right.

Wainwright: Thank you very much for that comment. And thank you for your comment, Secretary. Over here?

NV: Yes. I have a question. In the state of Oregon and California right now, their legislators are considering changing the gas tax from a tax on the

gasoline you buy at the pump to a tax by mile that you drive. This is because, faced with the fuel-efficient cars of the future, they see their revenue diminishing and they want to maintain their highway infrastructure. This is a fundamental example of what happens when you have a tax base supporting the infrastructure that then disappears because of improvements in technology. Is the Assistant Secretary considering a federal system similar to this where you tax by the mile, have GPS systems in automobiles to track where people go?

Frink: Thank God that doesn't fall under my banner. George? I have to defer to that – maybe to Jim because he's a car manufacturer and –

Padilla: Invariably, any regulation comes on our shoulders. That's a new one to me. It's not one that I would be red hot for, nor do I think anybody in this room should be because you don't want someone tracking you everywhere you go. I know that John wants to keep care – take a good look at where his triplets are going. I understand that; but that's a different issue, John. You don't want big brother doing that. So, thank you for the input. We'll keep an eye on that one. And that's not high on our roster.

Wainwright: Do we have a – another comment from the public? Over here, sir?

Rail: Hello. My name is Bill Rail, and I'm the Executive Director of the Jackson Area Manufacturing Association. I represent about 200 small and midsized firms in the – kind of the center – southwest – south center of the state. And I wanted to thank you all for the work that you guys are doing. We are kind of a microcosm of manufacturing. We are struggling with

exactly the same things that you guys are all talking about. We have had our community college drop their apprenticeship programs. So, we've come in and stepped in and pulled together our educational institutions, our career centers, and we're rebuilding that program with their assistance. We are creating a program that we're calling the I Can Make It Camp that goes down into the rising 4<sup>th</sup> and 5<sup>th</sup> grade levels, to hook these kids when they're first getting turned on to manufacturing and science and math and giving them practical application for it. And we're trying to build kind of a pipeline that goes from the start all the way through and delivers them into our apprenticeship and pre-apprenticeship programs and tying it to college credits so that they get these opportunities. It's all about creating those connections. And I'm really glad to hear what you guys are all doing. I've had conversations with folks at the National Association of Manufacturers about their Dream It, Do It program, and with NIMs on their apprenticeship standards. So, we're kind of trying to link all of these things together because that's the key to it all is that we're going to – we're going to sink or swim together in this. And I just wanted to thank you all for the work that you're doing.

Wainwright: Thank you. Any comments?

NV: I have a question.

Wainwright: Just a minute. Is there any comments from the Council? Thank you very much, sir.

NV: I don't know if I need the mic.

Wainwright: I don't think so.

NV: (Woman speaks Spanish) Extreme gratitude from all of us to bring the information back to our community. We have a great relationship with a lot of the people at the table. Welcome home, John. Jim, I can't tell you how much we appreciate the information. I have a question only due to the fact that, as community-based organizations, SARE and Latin Americans for Social and Economic Development, we depend on the manufacturing. So, I'm looking at a community perspective as far as the jobs. We have a great Hispanic manufacturing center in our community in southwest Detroit but, as manufacturing jobs go elsewhere – and I see them going in different directions – is there anything in your association that's planning for the manufacturing organizations to actually diversify their skills in other areas so that they can become – at least to look at other areas of manufacturing, not just the auto and not just the wheel. You know, is there anything in your plan of your association? And, if you do, I really would appreciate that. That's the only thing I had to ask. Is there anything?

Wainwright: Thank you. John?

Engler: Let me just say that Janie raises a very interesting point of view about the number of organizations that are community-based that are dependent on manufacturers for philanthropic support, for services, who work with them. And it's interesting. And I think often there's not this connection. How are manufacturers able to help? I mean, normally it would be if they're

profitable, if they're still around, if they're still in business. And when I look at yesterday's vote – or two days ago when they voted in the House of Representatives, there were – there was a bipartisan vote which I was pleased with, but it was interesting how many people – on what I thought was a pretty straightforward reform to curb some of these very wasteful and unwarranted class action lawsuits that are filed often in jurisdictions where the real intent is just to find a friendly face and to win money – that – that there was almost no argument why that legislation shouldn't be passed. A significant number of people in congress voted against that. We've talked today about cutting production costs in the United States. We've talked about regulatory burden. And it's interesting. And it's too bad the Congressman is gone, but – but there are, in this country, a whole lot of people who feel they don't need to support manufacturing when it comes time to vote on issues; but then they turn right around and expect – or in their communities people are saying, "Well, we need the help of the manufacturers to do this or to do that." And so I think there needs to be, on the part of community organizations, a – an awakening as to how important their political support can be to issues that aren't necessarily an issue in the community but have an impact on the economy which, in turn, will have an impact on the community. And upcoming – Janie, you remind me because of your leadership in the Hispanic community – the CAFTA, the Caribbean Area – or South American Area – of Free Trade Agreement is coming up. This CAFTA vote will be important. A lot of people are

looking at that and thinking, “Well, that’s a free vote. Those are small countries down there that really don’t matter very much.” But I think, if that trade vote is lost, it would be a very significant blow to moving ahead, liberalizing trade relations; and it would – it would send absolutely the wrong signal in terms of our ability to negotiate other deals where the stakes are considerably higher immediately. And yet, you know, I suspect there will be people who will simply turn the other way and say, “Well, I don’t have much manufacturing in my district, so it doesn’t matter,” but it does. And so I think that – that is a two-way street, and your question sort of gives me an opportunity to remind of that point.

Wainwright: Thank you very much, John. Thank you for the question. Why don’t we get this side of the room? One more question over here. We have time for one more question.

Simpson: Okay. Mic on. My name is Bruce Simpson. The Secretary and several speakers and have talked about the importance of healthcare. Everybody knows that, for the big three, for example, \$10 billion was spent by the big three last year. That’s \$1,000 to \$1,400 for every car that’s sold. For the whole nation, the expense was \$1.8 trillion. And, for that, we are one of the lowest nations in the world as far as healthcare is concerned. We spend trillions and wealthy nations are (inaudible). Why is this? We don’t apply quality methodology. We use wrong methods. We don’t use prevention. I’ve identified 14 significant areas that have made studies of what is wrong and what it takes to improve that. And I think a national

coalition of putting those into effect is certainly what is needed. The pharmaceutical industry, \$400 billion – they spend twice as much advertising than they do developing the medicines. That's not right. There are 88,000 medical representatives going around to doctor's offices pedaling and handing out gifts and so forth. That isn't right. There's a lot of work that needs to be done. Industry uses tools such as Six Sigma to improve quality. (inaudible) A lot of tools that are available are just not being put into effect, but they could be and it would help this important national problem, Don.

Wainwright: Thank you very much for your comments.

Frink: Yeah, Mr. Chairman, I just – I've been advised by Jim that you have produced a very outstanding piece of work with regard to the concern about healthcare costs. We'd like that you make that available to us to – so we can pass it around among the Council and all of us concerned and formulate some kind of a response. And we thank you very much for taking the time to present that.

Wainwright: Yes. Thank you for recognizing that, Jim and Al. And, sir, thank you very much for your hard work. And we appreciate you standing up and speaking out. I would like to now ask for a motion to discuss – to dismiss the Council. We've finished our time with it for the third meeting.

NV: So moved.

Wainwright: The Council meeting is adjourned. And see you in the future. Thank you.

NV: Thank you.



(end of session)